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Utilities

Water Utilities: Updated thoughts following 3Q20 prints/EEI meetings

Summary:
We continue to like water utilities in the US, especially given the recently gained earnings visibility for Buy-rated AWK in NJ and CWT in CA. AWK's large balance sheet makes it best-positioned to benefit from acquisitions of municipally- and privately-owned water and wastewater systems while the company keeps collecting additional water/wastewater service contracts for military bases. Buy-rated AWR has been less lucky in those military contract solicitations though two more of the contracts should be awarded still this year. Worse yet, the work under AWR's existing military contracts has been delayed due to COVID. The re-rating of CWT's stock on the back of its general rate case decision in CA came earlier than we hoped and the stock now looks (almost) fairly valued to us. SJW's 2021 guidance, if any, could disappoint due to the potential impact of La Nina on SJW's surface water production volumes in CA and some uncertainty related to the upcoming rate case in CT. WTRG pushes back against the discounted valuation of its gas LDC given its strong growth prospects, which we don't dispute, though we look toward the proposed DELCORA wastewater system acquisition in PA to change WTRG's earnings mix more toward water.
We continue to chase AWK hence we increased our PT to $175 from $152. We tweaked earnings estimates for AWK/AWR/CWT/SJW.

Highlights

AWK (Buy, PT $175 up from $152): A large balance sheet and a strong ESG profile increasingly matter among regulated water utilities in the US especially as acquisitions of municipally- and privately-owned water and wastewater systems continue to gain momentum. We reiterate our Buy rating on AWK, marginally raise estimates, and (again) increase our PT to $175 from $152 as we continue to chase the stock.

AWR (Buy, PT $83 unchanged): We were surprised by ongoing COVID-related delays of work under AWR's military water/wastewater contracts. Worse yet, AWK rather than AWR has been awarded the latest (and the largest) military contract though we await updates on two more contract awards over the next 45 days. We can live with eventual changes to AWR's full water revenue decoupling in CA as long as the company secures additional military contracts. We stick to our Buy rating and $83 PT.

CWT (Neutral, PT N/A): We delayed any rating changes on CWT until after its 3Q20 earnings print, in anticipation of yet another big earnings miss vs. consensus given the lack of a final decision in CWT's general rate case in CA. Yet, management decided to book an earnings catch up related to the rate case already in 3Q20 based on a Proposed Decision and comments on it from the CPUC consumer advocate. The stock jumped ~14% during a week following its earnings print vs. ~4% for XLU and ~5% for smid cap water names. Now, CWT trades at just a 4% 2022 P/E discount to an average regulated water utility in the US which seems almost fair to us. Therefore, we stick to our Neutral rating.

SJW (Neutral, PT N/A): San Jose Water's Monterey-style WRAM benefited SJW's earnings thanks to favorable weather and a COVID-related uptick in residential sales, though the earnings uplift was a bit lower than we had hoped. We remain concerned about the potential impact of the ongoing La Nina and the uncertainty surrounding the upcoming rate case in CT on SJW's 2021 guidance, if the company even decides to issue one in early 2021. Therefore, we remain on the sidelines on SJW even though the stock trades at a 15% 2022 P/E to an average regulated water utility.

WTRG (Neutral, PT N/A): While we share WTRG's rate base/earnings growth expectations for its gas LDC, we look to the pending acquisition of the DELCORA wastewater system in PA as a way to boost WTRG's earnings mix more towards water. We remain on the sidelines until we get more legal/regulatory clarity on this large wastewater system acquisition.

Seaport Global

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American Water Works Company, Inc.

(NYSE: AWK)

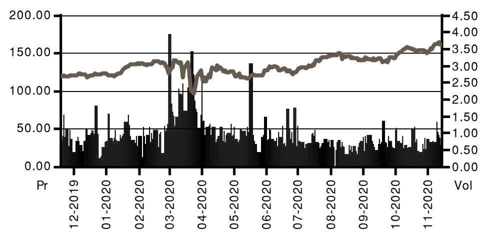
Size & pure-play profile increasingly matter in US water sector; raising PT

Rating:	**Buy**
Price Target:	**$175.00**

Price Target Metrics:
2022 SOTP valuation implying 38x 2022 EPS

Current Price:	**$161.31**
Float:	180.7MM
Diluted Shares:	181.0MM
Short Interest:	1.5MM
Average Daily Volume:	768k
52 Week Range:	$92.00 - $172.56
Market Cap:	**$29,197MM**
Cash and Investments:	$569MM
Debt:	$9,593MM
Enterprise Value:	$38,221MM

PRICE & VOLUME CHART



ESTIMATES $ (MMs except multiples & EPS)

	2019	2020 Prior	2020 New	2021 Prior	2021 New	2022 Prior	2022 New
EPS (Adjusted)							
FY	$3.61A	$3.85	$3.87E	$4.23	$4.25E	$4.59	$4.60E
P/E	**44.6x**		**41.7x**		**37.9x**		**35.1x**
Dividends Per Share							
FY	$1.955A	$2.150	$2.150E	$2.365	$2.365E	$2.600	$2.600E
Dividend Yield	**1.2%**		**1.3%**		**1.5%**		**1.6%**

Summary:

A large balance sheet and a strong ESG profile increasingly matter among regulated water utilities in the US especially as acquisitions of municipally- and privately-owned water and wastewater systems continue to gain momentum. We reiterate our Buy rating on AWK, marginally raise estimates, and (again) increase our PT to $175 from $152 as we continue to chase the stock.

We met with AWK's management during the annual EEI conference.

Highlights

NJ rate case: The NJ BPU approved AWK's general rate case settlement in the state and in general, the order seemed constructive. AWK received a $39MM increase in annual revenues (vs. $87.7MM requested) starting Nov 1, 2020, based on a rate base of $3.57B (down $69MM from the requested level), an allowed ROE of 9.6% (vs. 10.5% requested, but flat vs. the previous ROE) and an equity ratio of 54.6% (marginally up from 54% previously). The settlement and thus the final order didn't include acquisition adjustments related to the goodwill paid in Shorelands/Haddonfield/ Roxbury transactions or a revenue stabilization mechanism (aka revenue decoupling). We expect NJ AWK to ask for decoupling in the next rate case, while the acquisition adjustments for avoided capex related to privately-owned water/wastewater systems should be decided by the BPU within the next 2-3 months. The Board previously found that an acquisition adjustment is appropriate only when a utility can demonstrate specific benefits to its incumbent customers (rather than just for the system being acquired) stemming from the proposed acquisition or when the system being acquired is distressed. AWK believes the acquisition premium should be recoverable because the three transactions should result in avoided capital spending over the next 5-10 which should be in excess of that the premium over the book value that AWK paid. For now, the $31MM is not included in AWK's rate base and while it's very small vs. AWK's $14.6B total rate base, the BPU ruling in these acquisition adjustment cases could have very meaningful implications for any future larger acquisitions of investor-owned water utilities in NJ, we believe.

NY asset sale: Management still hopes to close its pending sale of NY operations to Liberty Utilities in early 2021 despite delays from the NY PSC to allow for municipalization plans being filed in Long Island and now proposed legislative initiatives. Gov. Cuomo recently proposed a new bill which, among others, would "expedite and clarify the process of utility franchise revocation for recurring failures" and require the NY PSC to study "whether private water suppliers like American Water on Long Island should come under municipal control". The new legislation would require the NY PSC to issue a report on the potential municipalization of the Long Island water utilities by April 2021, but AWK hopeful the regulatory review of the Liberty Utilities deal could be concurrent with PSC's work on this report.

Military contracts: AWK awaits two more military water/wastewater contracts awards this year – the last three contracts were awarded exclusively to AWK though for now we assume the next two contracts should be split between AWK and AWR. Management reminded us that back in 2000, AWK faced 10 competitors in military water/wastewater contract solicitations, but AWR is now the only credible competitor. AWK won't provide any disclosures on the profitability of this segment of its market-based businesses, partly because that would allow us to back into profit margins for the highly competitive homeowners' services business, but we see these 50-year inflation-adjusted contracts as even more lucrative than any of AWK's regulated utility franchises.

Changes to estimates and PT: AWK raised its 2020 GAAP EPS guidance to $3.87-3.93 up from $3.79-3.89. The guidance includes a $0.05 EPS net hit related to COVID and a summer weather benefit ($0.10) as well as a $0.06 lower depreciation expense related to the NY system held for sale. The $0.06 benefit was not included in the original adjusted EPS guidance range and is excluded from our estimates. Still, given the strong 3Q20 print, we raised our 2020 adjusted EPS estimate to $3.87 up from $3.85. We marginally increased our 2021/2022 EPS estimates to reflect the recently awarded military contract which was much larger than expected. Our new 2021/2022 EPS estimates are $4.25/4.60 up from $4.23/4.59. We continue to chase the stock even though the P/E multiple is increasingly hard for us to defend. Our new PT of $175 (up from $152) implies a 38x 2022 P/E multiple.

Company Description:
AWK is the largest publicly-traded regulated water and wastewater utility in the US with operations in 16 states, primarily in the Northeast and the Midwest, serving 3.4 million customer accounts. AWK also engages in unregulated contract-based water/wastewater services for military bases (17 bases) and provides water/wastewater line warranty services (homeowner services) to ~1.5 million residential accounts.

AWK: EPS estimates by segment ($)

AWK	2019A	2020E	2021E	2022E	'19-'22 CAGR
Regulated utilities	3.60	3.94	4.34	4.68	9.1%
Unregulated ops	0.45	0.49	0.52	0.56	7.6%
Parent	-0.44	-0.56	-0.61	-0.64	13.3%
Total EPS	**3.61**	**3.87**	**4.25**	**4.60**	**8.4%**
DPS	**1.96**	**2.15**	**2.37**	**2.60**	**10.0%**
Dividend payout	54%	56%	56%	57%	

Source: Company data for 2019; Seaport Global Securities

AWK: 2022 SOTP valuation ($)

AWK - 2022 SOTP	EPS	Multiple	Value per share
Regulated utilities less parent	4.04	39.0x	157.56
Military contracts	0.19	50.0x	9.50
Homeowner services	0.37	23.0x	8.51
Total per share			**175.57**

Source: Seaport Global Securities

AWK	2019A	2020E	2021E	2022E
Sales	3,610	3,780	4,025	4,233
Operating expenses	1,824	1,881	1,927	1,977
EBITDA	1,786	1,899	2,098	2,257
Depreciation	582	615	670	714
EBIT	1,204	1,284	1,428	1,543
Net interest expense	382	399	442	460
Ordinary Profit Before Tax	872	935	1,036	1,133
Income tax	218	234	259	283
Net profit	654	701	777	850
S/O (m)	181	181	183	185
Diluted EPS	**3.61**	**3.87**	**4.25**	**4.60**
DPS	**1.96**	**2.15**	**2.37**	**2.60**

Cash	90	45	45	45
Financial and Operating Receivables	294	311	332	349
Inventory	44	44	45	46
Other short-term assets	857	292	292	292
Goodwill	1,501	1,501	1,501	1,501
Other-long term assets	1,664	1,664	1,664	1,664
Property, plant, and equipment	18,232	19,486	20,686	21,843
Total assets	**22,682**	**23,343**	**24,564**	**25,739**
Financial liabilities	814	936	936	936
Operating liabilities	203	194	198	203
Other liabilities	1,028	851	851	851
Deferred credits and other regulatory liabiliti	5,872	6,054	6,256	6,400
Long-term debt	8,639	9,475	9,893	10,400
Shareholders' equity	6,126	5,833	6,430	6,949
Total liabilities and equity	**22,682**	**23,343**	**24,564**	**25,739**

Net income	654	701	777	850
D&A, goodwill amortisation	582	615	670	714
Other non cash elements	214	182	202	221
Funds from operations	1,450	1,499	1,648	1,784
Decrease (increase) in non-cash working ca	-67	-26	-17	-90
CFO	**1,383**	**1,472**	**1,632**	**1,694**
Net investments in fixed assets	-1,841	-1,865	-1,865	-1,865
Net investments in financial assets	-104	-104	-104	-104
Free cash flow before dividends	**-562**	**-497**	**-337**	**-275**
Dividends paid (group + minorities)	-354	-389	-432	-480
Free cash flow after dividends	-916	-886	-769	-755
Increase or (repayment) of capital and subsi	857	886	468	557
Increase or (repayment) of financial debt	-36	-45	301	198
Adjustment for minorities / miscellaneous	27	0	0	0
Increase in cash	-68	-45	0	0

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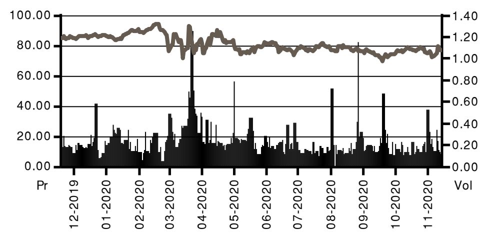
Rating:	**Buy**
Price Target:	**$83.00**

Price Target Metrics:
2022 SOTP valuation which implies 33x '22 EPS

Current Price:	**$77.20**
Float:	36.4MM
Diluted Shares:	37.0MM
Short Interest:	0.9MM
Average Daily Volume:	201k
52 Week Range:	$65.11 - $96.64
Market Cap:	**$2,857MM**
Cash and Investments:	$8MM
Debt:	$440MM
Enterprise Value:	$3,289MM

PRICE & VOLUME CHART



ESTIMATES $ (MMs except multiples & EPS)

	2019	2020 Prior	2020 New	2021 Prior	2021 New	2022 Prior	2022 New
EPS (Diluted)							
Q1 (Mar)	$0.35A	$0.38	$0.38A	$0.50	$0.49E	$0.54	$0.53E
Q2 (Jun)	$0.64A	$0.69	$0.68A	$0.64	$0.63E	$0.68	$0.67E
Q3 (Sep)	$0.69A	$0.77	$0.72A	$0.79	$0.77E	$0.84	$0.83E
Q4 (Dec)	$0.55A	$0.48	$0.52E	$0.51	$0.50E	$0.54	$0.53E
FY	$2.24A	$2.33	$2.30E	$2.45	$2.39E	$2.61	$2.56E
P/E	**34.5x**		**33.6x**		**32.3x**		**30.2x**
Dividends Per Share							
FY	$1.160A	$1.280	$1.280E	$1.390	$1.390E	$1.495	$1.495E
Dividend Yield	**1.5%**		**1.7%**		**1.8%**		**1.9%**

American States Water Company

(NYSE: AWR)

COVID continues to impact execution of military contracts; still awaiting new contract awards

Summary:

We were surprised by ongoing COVID-related delays of work under AWR's military water/wastewater contracts. Worse yet, AWK rather than AWR has been awarded the latest (and the largest) military contract though we await updates on two more contract awards over the next 45 days. We can live with eventual changes to AWR's full water revenue decoupling in CA as long as the company secures additional military contracts. We stick to our Buy rating and $83 PT.

Highlights

Military contracts: AWR awaits awards of two military water/wastewater contracts awards over the next 45 days – the last three contracts were awarded exclusively to AWK though for now we assume the next two contracts should be split between AWR and AWK. COVID continues to delay some current work and expansions of scope of some of AWR’s current military contracts. As a result, management now expects to earn only $0.46 in 2020 EPS for this segment (ASUS) and for the earnings to stay largely flat YoY in 2021 assuming the COVID pandemic continues.

Modifications to full water decoupling (WRAM) and GSWC's pending rate case: We continue to expect the recent full WRAM changes to affect AWR’s/GSWC's earnings only in 2025, if at all. Management insists the company should do just fine even under the new Monterey-style WRAM, and GSWC has a history of earning at least its allowed ROE on the water side. We are still hopeful the Commission could change its mind on the full WRAM, especially that all investor-owned water utilities in CA with the full WRAM have asked for the rehearing of the CPUC decision and, if unsuccessful, seem willing to challenge the decision in courts. The current term of Comm. Guzman-Aceves, the author of the WRAM change, should expire by the end of 2022, i.e. before the filing of GSWC's next general rate case.

Changes to estimates: We lowered our estimates to reflect the weaker earnings for existing military contracts (ASUS) and some uncertainty around new contract awards given that AWK (rather than AWR) has been winning all of the recent awards. Our new 2020/2021/2022 EPS estimates are $2.29/2.39/2.56 down from $2.33/2.45/2.61, respectively.

Company Description:

AWR is the parent of Golden States Water Co. (GSWC), a regulated water (261,000 water connections in 37 systems), Beaver Valley Electric Service (BVESI), an electric utility (24,400 electric connections in one system) in CA, and American States Utility Services (ASUS), which engages in contract-based water and wastewater services primarily for military bases, currently 11 bases.

AWR: EPS breakdown by segment ($)

AWR	2019A	2020E	2021E	2022E	2019-2022 CAGR
Regulated water	1.62	1.65	1.72	1.83	4.2%
Regulated electric	0.15	0.18	0.20	0.21	11.9%
Military contracts/ASUS	0.47	0.46	0.47	0.52	3.4%
Total EPS	**2.24**	**2.29**	**2.39**	**2.56**	**4.6%**
DPS	**1.16**	**1.28**	**1.39**	**1.49**	**8.8%**
Dividend payout	52%	56%	58%	58%	

Source: Company data for 2019; Seaport Global Securities

AWR	2018A	2019A	2020E	2021E	2022E
Total Revenues	437	474	481	497	518
Total Operating Expenses	336	347	351	362	374
EBIT	101	127	130	135	144
Net income	$ 64	$ 83	$ 85	$ 88	$ 95
S/O	37	37	37	37	37
Diluted EPS	**$1.72**	**$2.24**	**$2.29**	**$2.39**	**$2.56**
DPS	**$1.06**	**$1.16**	**$1.28**	**$1.39**	**$1.49**
Net income	64	83	85	88	95
Adjustments to reconcile non-cash charges	40	42	46	48	51
Changes in assets and liabilities	33	(8)	(12)	(12)	(12)
CFO	137	117	119	125	134
Capital expenditures	(127)	(152)	(115)	(145)	(155)
Other	(1)	(1)	-	-	-
CFI	(128)	(153)	(115)	(145)	(155)
Issuance/repurchase of common stock	1	1	1	1	1
Long-term debt issued/repaid	(0)	(40)	30	45	45
Short-term debt issued/repaid	37	110	20	15	20
Dividends paid	(39)	(43)	(47)	(51)	(55)
Other	0	4	4	4	4
CFF	(2)	31	7	13	14
Net change in cash and cash equivalents	2	(6)	11	(8)	(7)
Cash and cash equivalents, end of period	7	1	12	4	(3)
Current assets	$ 131	$ 122	$ 135	$ 129	$ 124
PP&E	1,323	1,447	1,519	1,621	1,729
Regulatory and other assets	47	72	72	72	72
Total assets	1,501	1,641	1,726	1,821	1,925
Current liabilities	147	116	157	157	157
Long-term debt	281	281	311	356	401
Other liabilities (including construction)	516	643	643	643	643
Total liabilities	943	1,040	1,111	1,156	1,201
Total Shareholders' Equity	558	601	614	665	723
Liabilities and Shareholders' Equity	$ 1,501	$ 1,641	$ 1,726	$ 1,821	$ 1,925

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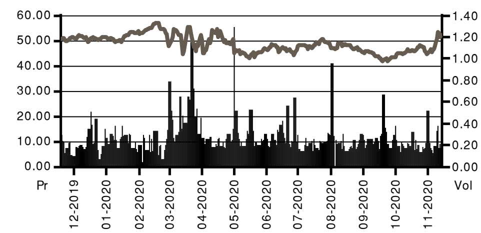
Rating:	**Neutral**
Price Target:	**N/A**
Price Target Metrics: N/A	
Current Price:	**$52.38**
Float:	49.4MM
Diluted Shares:	49.4MM
Short Interest:	0.8MM
Average Daily Volume:	221k
52 Week Range:	$39.74 - $57.36
Market Cap:	**$2,588MM**
Cash and Investments:	$114MM
Debt:	$1,182MM
Enterprise Value:	$3,655MM

PRICE & VOLUME CHART



ESTIMATES $ (MMs except multiples & EPS)

	2019	2020 Prior	2020 New	2021 Prior	2021 New	2022 Prior	2022 New
EPS (Diluted)							
Q1 (Mar)	$(0.16)A	$(0.42)	$(0.42)A	$(0.12)	$(0.12)E	$(0.08)	$(0.08)E
Q2 (Jun)	$0.35A	$0.11	$0.11A	$0.43	$0.42E	$0.53	$0.53E
Q3 (Sep)	$0.88A	$0.78	$1.94A	$0.85	$0.85E	$0.95	$0.95E
Q4 (Dec)	$0.24A	$1.03	$0.24E	$0.54	$0.54E	$0.43	$0.43E
FY	$1.31A	$1.49	$1.87E	$1.70	$1.70E	$1.83	$1.83E
P/E	**39.8x**		**27.9x**		**30.9x**		**28.6x**
Dividends Per Share							
FY	$0.790A	$0.850	$0.850E	$0.909	$0.909E	$0.978	$0.978E
Dividend Yield	**1.5%**		**1.6%**		**1.7%**		**1.9%**

California Water Services Group

(NYSE: CWT)

Re-rating came faster than we expected

Summary:

We delayed any rating changes on CWT until after its 3Q20 earnings print, in anticipation of yet another big earnings miss vs. consensus given the lack of a final decision in CWT's general rate case in CA. Yet, management decided to book an earnings catch up related to the rate case already in 3Q20 based on a Proposed Decision and comments on its from the CPUC consumer advocate. The stock jumped ~14% during a week following its earnings print vs. ~4% for XLU and ~5% for smid cap water names. Now, CWT trades at just a 4% 2022 P/E discount to an average regulated water utility in the US which seems almost fair to us. Therefore, we stick to our Neutral rating.

Highlights

2020 earnings catch up came earlier and was bigger than we expected: CWT booked YTD adjustments to its CA earnings in 3Q20 based on a Proposed Decision (PD) in its pending general rate case (GRC) and comments from the consumer advocate on the PD. We were clearly surprised by this move as CWT’s management tends to be very conservative on any regulatory adjustments. The earnings adjustments were meaningfully higher than we had anticipated, even adjusting for the accelerated true up in YTD earnings, and seemed driven by one-time adjustments for the 2017 TCJA-related tax customer refund. This is why our 2021/2022 estimates, which drive our rating, remained unchanged while our 2020 estimates went up sharply.

Change to CWT’s full revenue decoupling (WRAM) only in 2023, if at all: In late August, the CPUC removed the full water revenue decoupling (WRAM) for all four investor-owned water utilities in CA which currently use the mechanism, including CWT. The Commission ruled that the WRAM removal should impact "any future general rate case applications filed after the effective date of this decision". The PD agreed with CWT’s stance and as a result, CWT’s earnings in CA should be impacted only starting 2023 if at all. CWT along with the remaining three investor-owned water utilities in CA have asked for rehearing of the CPUC decision, and if unsuccessful, the utilities seem ready to challenge the decision in courts.

Estimates and valuation: We raised our 2020 estimates (to $1.87 from $1.49) to reflect YTD results and cost deferrals which meaningfully exceeded our expectations. Our 2021-2022 estimates remain unchanged. Following a recent rally, CWT not trades at just a 4% discount to an average regulated water utility which seems almost fair to us. The company has highly underinvested utility assets in CA, but management’s conservatism results in volatility in earnings which in effect reduce the rate base growth appeal of CWT. Therefore, we remain on the sidelines.

Company Description:

CWT operates regulated water and wastewater utilities in CA, WA, HI and NM, with 490,000 connections in CA (90%), 36,000 connections in WA (recently doubled through an acquisition), 5,000 in HI, and 8,300 connections in NM.

CWT: EPS breakdown by segment ($)

CWT	2019A	2020E	2021E	2022E	2019-2022 CAGR
Total EPS	**1.31**	**1.87**	**1.70**	**1.83**	**11.7%**
DPS	**0.79**	**0.85**	**0.91**	**0.98**	**7.4%**
Dividend payout	60%	45%	54%	53%	

Source: Company data for 2019; Seaport Global Securities

CWT		2019A		2020E		2021E		2022E
EBIT		117		149		148		163
EBITDA		209		248		255		277
Net interest expense		41		44		45		47
Net income		63		92		87		96
EPS		**$1.31**		**$1.87**		**$1.70**		**$1.83**
DPS		**$0.79**		**$0.85**		**$0.91**		**$0.98**
CFO	**$**	**169**	**$**	**211**	**$**	**214**	**$**	**231**
Utility plant expenditures		(274)		(275)		(285)		(285)
Other		(2)		(2)		(2)		(2)
CFI		**(276)**		**(277)**		**(287)**		**(287)**
Issuance of common stock		18		96		80		86
Issuance of debt		103		28		32		32
Dividends		(38)		(41)		(44)		(47)
Other		20		20		20		20
CFF		**103**		**103**		**88**		**91**
Change in cash and cash equivalents		(4)		37		15		35
Net utility plant		2,406		2,583		2,761		2,932
Cash and cash equivalents		43		86		100		136
Other current assets		142		142		142		142
Total current assets		184		227		242		277
Regulatory assets		433		433		433		433
Goodwill		3		3		3		3
Other assets		85		85		85		85
Total assets	**$**	**3,111**	**$**	**3,331**	**$**	**3,524**	**$**	**3,731**
Total common stockholders' equity	$	780	$	831	$	874	$	923
Long-term debt, less current maturitie		787		814		847		879
Total capitalization		**1,567**		**1,645**		**1,720**		**1,802**
Total current liabilities		359		479		578		682
Deferred income taxes		223		223		223		223
Pension and postretirement benefits o		259		259		259		259
Other long-term liabilities		270		270		270		270
Advances for construction		191		191		191		191
Contributions in aid of construction		242		262		282		302
Total capitalization and liabilities	**$**	**3,111**	**$**	**3,331**	**$**	**3,524**	**$**	**3,731**

Seaport Global

Angie Storozynski
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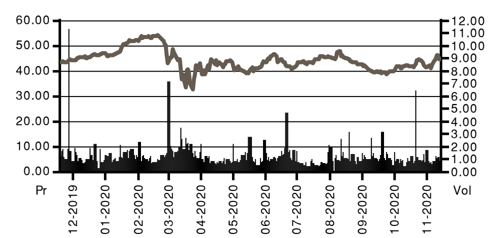
(917) 747-7228

Rating:	**Neutral**
Price Target:	**N/A**
Price Target Metrics:* *N/A	
Current Price:	**$44.71**
Float:	244.8MM
Diluted Shares:	254.4MM
Short Interest:	11.0MM
Average Daily Volume:	1,188k
52 Week Range:	$30.40 - $54.52
Market Cap:	**$11,376MM**
Cash and Investments:	$5MM
Debt:	$5MM
Enterprise Value:	$11,376MM

PRICE & VOLUME CHART



ESTIMATES $ (MMs except multiples & EPS)

	2019	2020 Prior	2020 New	2021 Prior	2021 New	2022 Prior	2022 New
EPS (Diluted)							
FY	$1.47A	$1.58	$1.58E	$1.66	$1.66E	$1.78	$1.78E
P/E	**30.4x**		**28.3x**		**27.0x**		**25.2x**
Dividends Per Share							
FY	$0.907A	$0.970	$0.970E	$1.038	$1.038E	$1.111	$1.111E
Dividend Yield	**2.0%**		**2.2%**		**2.3%**		**2.5%**

Essential Utilities, Inc.

(NYSE: WTRG)

DELCORA deal is increasingly important as it should dilute gas LDC exposure

Summary:

While we share WTRG's rate base/earnings growth expectations for its gas LDC, we look to the pending acquisition of the DELCORA wastewater system in PA as a way to boost WTRG's earnings mix more towards water. We remain on the sidelines until we get more legal/regulatory clarity on this large wastewater system acquisition.

Highlights

Gas LDCs and ESG investing: We continue to project a ~9% annual rate base growth for WTRG’s Peoples in PA, but investors increasingly question the longevity of this infrastructure replacement cycle given the growing push to decarbonize house heating in Europe. Ongoing gas pipe replacement should continue to reduce methane leaks and blending of RNG should lower the carbon footprint of gas LDCs without any detriment to their earnings growth over the next decade if not longer, we believe, as electric heat pumps gain on popularity. In other words, we don’t expect the rate base growth of gas LDCs especially those in gas-supportive states like PA to slow down any time soon. However, the marginal US water utility investor seems to have a strict ESG mandate and WTRG’s 30% of earnings coming from gas LDCs seems to diminish the investment appeal of WTRG's stock. The DELCORA acquisition, if successful, should reduce the gas LDC earnings contributions hence the transaction is increasingly important for the stock.

DELCORA acquisition: WTRG has $363MM in pending muni water/wastewater deals in PA (and TX), the largest backlog we can recall in Aqua’s/WTRG’s history. The backlog includes the DELCORA wastewater acquisition ($276.5MM) which continues to face legal challenges, but WTRG’s management feels comfortable with its ability to close the transaction in late March/April 2021, following a delayed PA PUC review. WTRG/ Aqua PA insists that they have a legally binding asset purchase agreement (APA) for the wastewater system, but courts should rule on the APA validity only within the next 60 days. The DELCORA transaction should be additive to WTRG’s water earnings only in 2022 following Aqua PA’s rate case to be filed next year.

Estimates and valuation: WTRG’s 3Q20 earnings and management’s guidance toward the high-end of its 2020 EPS target range came in line with our expectations. Our 2020-2022 EPS estimates remain unchanged. We recognize that WTRG’s gas utility is in good regulatory jurisdictions and has strong rate base/earnings growth prospects, similar to those of ATO. WTRG’s water utility is an average grower unless the company should be successful with the DELCORA acquisition, we believe. Excluding the DELCORA deal, WTRG’s stock now adequately reflects its current earnings mix and growth prospects, we believe. Therefore, we remain on the sidelines until we grow more comfortable with the DELCORA deal actually closing.

Company Description:

WTRG owns and operates water utilities (1 million accounts) and gas utilities (0.74 million accounts) in 10 states though mainly PA.

WTRG: EPS estimates per segment ($)

WTRG	2019A	2020E	2021E	2022E	'19-'22 CAGR
Regulated water utilities	1.47	1.10	1.17	1.25	
Regulated gas utilities	0.00	0.54	0.61	0.69	
Parent	0.00	-0.06	-0.13	-0.16	
Total EPS	**1.47**	**1.58**	**1.66**	**1.78**	**6.7%**
DPS	**0.91**	**0.97**	**1.04**	**1.11**	**7.0%**
Dividend payout	62%	61%	63%	62%	

Source: Company data for 2019, Seaport Global Securities

WTRG	2019A	2020E	2021E	2022E
Operational EBITDA	505	874	923	1,000
Operational EBIT	349	610	645	706
Net interest expense	100	202	210	228
Ordinary Profit Before Tax	269	437	464	507
Income tax	7	35	37	41
Net profit	262	402	427	466
S/O (m)	178	255	258	262
Diluted EPS	**1.47**	**1.58**	**1.66**	**1.78**
DPS	**0.91**	**0.97**	**1.04**	**1.11**
Cash	1,869	5	5	5
Receivables	108	110	113	120
Inventory	18	30	30	30
Other short-term assets	18	18	18	18
Other-long term assets	1,003	3,810	3,810	3,810
Property, plant, and equipment	6,346	8,962	9,113	9,249
Total assets	**9,362**	**12,935**	**13,090**	**13,232**
Financial liabilities	117	496	496	496
Operating liabilities	67	109	109	109
Other liabilities	108	220	220	220
Deferred credits	2,057	2,758	2,757	2,757
Long-term debt	2,943	4,750	5,346	5,658
Shareholders' equity	4,070	4,602	4,161	3,992
Total liabilities and equity	**9,362**	**12,935**	**13,090**	**13,232**
Net income	262	402	427	466
D&A, goodwill amortisation	156	264	279	294
Other non cash elements	-40	-6	-6	-6
Funds from operations	379	660	699	754
Non-cash working capital	-40	43	0	-1
CFO	**339**	**703**	**699**	**753**
Net investments in fixed assets	-610	-6,555	-1,032	-780
Net investments in financial assets	6	0	0	0
Free cash flow before dividends	**-266**	**-5,852**	**-333**	**-27**
Dividends paid	-161	-242	-266	-290
Free cash flow after dividends	-427	-6,095	-599	-316
Changes in equity	1,935	302	2	3
Changes in financial debt	386	3,927	596	313
Adjustment for minorities / miscellaneous	-28	1	1	1
Increase in cash	1,866	-1,864	0	0

Seaport Global

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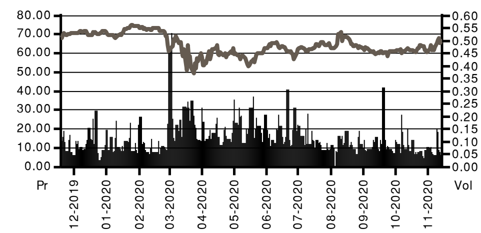
Rating:	**Neutral**
Price Target:	**N/A**
Price Target Metrics:* *N/A	
Current Price:	**$66.17**
Float:	26.0MM
Diluted Shares:	28.7MM
Short Interest:	0.3MM
Average Daily Volume:	73k
52 Week Range:	$45.60 - $74.99
Market Cap:	**$1,899MM**
Cash and Investments:	$20MM
Debt:	$1,505MM
Enterprise Value:	$3,384MM

PRICE & VOLUME CHART



ESTIMATES $ (MMs except multiples & EPS)

	2019	2020 Prior	2020 New	2021 Prior	2021 New	2022 Prior	2022 New
EPS (Diluted)							
Q1 (Mar)	$0.21A	$0.08	$0.08A	$0.23	$0.23E	$0.26	$0.26E
Q2 (Jun)	$0.48A	$0.69	$0.69A	$0.70	$0.70E	$0.79	$0.79E
Q3 (Sep)	$0.68A	$0.95	$0.91A	$0.82	$0.82E	$0.92	$0.92E
Q4 (Dec)	$0.42A	$0.33	$0.36E	$0.59	$0.59E	$0.65	$0.65E
FY	$1.78A	$2.05	$2.04E	$2.35	$2.35E	$2.62	$2.62E
P/E	**37.1x**		**32.5x**		**28.2x**		**25.3x**
Dividends Per Share							
FY	$1.200A	$1.280	$1.280E	$1.370	$1.370E	$1.465	$1.465E
Dividend Yield	**1.8%**		**1.9%**		**2.1%**		**2.2%**

SJW Group
(NYSE: SJW)

2021 guidance, if any, could disappoint

Summary:
San Jose Water's Monterey-style WRAM benefited SJW's earnings thanks to favorable weather and a COVID-related uptick in residential sales, though the earnings uplift was a bit lower than we had hoped. We remain concerned about the potential impact of the ongoing La Nina and the uncertainty surrounding the upcoming rate case in CT on SJW's 2021 guidance, if the company even decides to issue one in early 2021. Therefore, we remain on the sidelines on SJW even though the stock trades at a 15% 2022 P/E to an average regulated water utility.

Highlights

Tweaking estimates: We trimmed our recently increased 2020 EPS estimate to $2.04 from 2.05 based on SJW's 3Q20 earnings print. Our 2021/2022 EPS estimates remain unchanged. We continue to be concerned about SJW's 2021 EPS guidance range given the likely La Nina impact on its surface water production levels as well as an uncertain outcome of its CT rate case. We wouldn't be surprised if management decided not to provide 2021 EPS guidance in early 2021 which would not be well-received, we believe. Please see our most recent note on SJW for our latest thoughts on the name.

Company Description:
SJW Group is a regulated water and wastewater utility serving ~390,000 accounts across CA, CT, TX and ME. SJW merged with Connecticut Water Service in October 2019.

SJW: EPS breakdown by segment ($)

SJW	2019A	2020E	2021E	2022E	2019-2022 CAGR
Total EPS	**1.78**	**2.04**	**2.35**	**2.62**	**13.7%**
DPS	**1.20**	**1.28**	**1.37**	**1.47**	**6.9%**
Dividend payout	67%	63%	58%	56%	

Source: Company data for 2019; Seaport Global Securities

SJW	2019A	2020E	2021E	2022E
EBITDA	157	211	236	248
Net income	51	58	67	75
EPS diluted	**$1.78**	**$2.04**	**$2.35**	**$2.62**
DPS	**$1.20**	**$1.28**	**$1.37**	**$1.47**
CFO	**$ 130**	**$ 151**	**$ 167**	**$ 177**
CFI	**(1,018)**	**(216)**	**(277)**	**(257)**
Issuance of common stock	0.0	0.0	0.0	0.0
Issuance of debt	502	113	113	113
Dividends	-34	-36	-39	-40
CFF	**485**	**101**	**99**	**99**
Change in cash and cash equivalents	-403	36	-12	19
Net utility plant	2,206	2,313	2,474	2,612
Cash and cash equivalents	18	54	42	62
Other current assets	109	112	115	117
Total current assets	127	166	157	179
Regulatory assets	114	114	114	114
Goodwill	628	628	628	628
Other assets	57	57	57	57
Total assets	**3,132**	**3,278**	**3,430**	**3,591**
Total common stockholders' equity	$ 890	$ 966	$ 980	$ 999
Long-term debt, less current	1,261	1,187	1,195	1,203
Total capitalization	**2,151**	**2,153**	**2,175**	**2,202**
Total current liabilities	235	359	470	583
Deferred income taxes	196	193	190	188
Pension and postretirement benefits oth	108	108	108	107
Other long-term liabilities	45	45	45	45
Advances for construction	112	135	157	180
Contributions in aid of construction	286	286	286	286
Total capitalization and liabilities	**3,132**	**3,278**	**3,430**	**3,591**

Utilities Disclosures

I, Angie Storozynski, hereby certify: (1) that all of the views expressed in this report accurately reflect my personal views about any and all of the subject securities or issuers; and (2) that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

As with all employees of Seaport Global Securities LLC, a portion of our analysts' compensation is paid from the total collection of revenues from all areas of the firm including but not limited to Investment Banking and Sales and Trading departments. In no instance are research analysts' compensation directly derived from Investment Banking revenues.

Risks & Considerations for American Water Works Company, Inc. American Water Works Company, Inc. (AWK)

Allowed ROEs for AWK's regulated utilities could fall due to lower market interest rates: Equity returns/ROE of regulated electric/gas/water utilities are indirectly linked to the 10-year Treasury yield. The average allowed ROE of a regulated utility in the US dropped just 25 bps since 2008 despite a 152 bps drop in the average 10-year T yield over this period. However, state utility regulators could sharply reduce allowed ROEs of regulated utilities going forward which currently average 9.75% average. The allowed ROE together with an equity ratio are the key drivers of regulated utility earnings.

Lower sales volumes could weigh on AWK's realized ROEs and thus earnings: A utility can see a meaningful deficiency between its realized and allowed ROE depending on the level of sales volumes and operating expenses. While the latter can be controlled, sharp reductions in sales volumes due to energy efficiency (residential and commercial sales) or closure of industrial facilities. The latter is particularly pronounced during the COVID pandemic. The sharply lower C&I sales volumes could weigh on utility earnings beyond 2020. While rate cases could true up sales volume assumptions, utilities could delay rate filings because their ROE could be reduced during those proceedings on the back of sharply lower interest rates.

Rate case outcomes are hard to predict: While regulated utilities are allowed to recover prudently incurred costs, its up to state utility regulators to determine which costs are in fact recoverable and the return on regulated assets. Some rate case requesting higher revenues may end with a reduction in authorized rates thus revenues and thus earnings. AWK has a particularly busy regulatory calendar in 2020, with rate cases in three of its largest jurisdictions – NJ, PA and MO.

Potentially higher equity needs due to weakening operating cash flows and underfunded pension funds: Lower customer collections (due to lower sales or non-payment) coupled with growing federal cash taxes and underperforming pension funds should be weighing on operating cash flows of regulated utilities especially during/following the COVID-19 pandemic. That in turn could require some deleveraging of balance sheets of regulated utilities thus more equity. AWK already announced ~$500m in new equity as soon as 2022, but the issuances could be enlarged and accelerated to protect AWK's credit ratings.

Risks & Considerations for American States Water Company American States Water Company (AWR)

AWR's water utility (GSWC) could see volatility in earnings due to usage: The CPUC recently modified the full water decoupling mechanism (WRAM). While it should not impact GSWC until the next rate case, covering 2025-2027, CA utility consumer advocates push for an immediate change to the decoupling mechanism. GSWC has always excelled at earning at least its allowed ROE in CA, but it could prove challenging with WRAM.

Allowed ROEs for AWR's regulated utilities could fall due to lower market interest rates: Equity returns/ROE of regulated electric/gas/water utilities are indirectly linked to the 10-year Treasury yield. The average allowed ROE of a regulated utility in the US dropped just 25 bps since 2008 despite a 152 bps drop in the average 10-year T yield over this period. However, state utility regulators could sharply reduce allowed ROEs of regulated utilities going forward which currently average 9.75% average. The allowed ROE together with an equity ratio are the key drivers of regulated utility earnings. AWR's allowed ROE for its water utility for 2022-2024 should be set by late 2021 in a cost of capital proceeding.

Rate case outcomes are hard to predict: While regulated utilities are allowed to recover prudently incurred costs, its up to state utility regulators to determine which costs are in fact recoverable and the return on regulated assets. Some rate case requesting higher revenues may end with a reduction in authorized rates thus revenues and thus earnings. AWR should be filing a new water rate case by July 2020 with new rates in effect in January 2021.

Returns in pension accounts impact AWR's earnings in between rate cases in CA: AWR has no balancing account tracking changes in returns in its pension accounts. Those changes can be trued up/reflected in AWR's rates during rate cases, but those take place every three years.

Military contracts are highly competitive: Through its unregulated ASUS subsidiary, AWR provides water and wastewater services to 11 military bases. The company awaits awards of up to three more of these contracts in 2020. We assume that AWR secures at least one new military contract per year in 2020-2022 though AWK, AWR's largest competitor, has been winning most of the contract awards as of late.

Risks & Considerations for California Water Services Group California Water Services Group (CWT)

Allowed ROEs for CWT's regulated water utilities could fall due to lower market interest rates: Equity returns/ROE of regulated electric/gas/water utilities are indirectly linked to the 10-year Treasury yield. The average allowed ROE of a regulated utility in the US dropped just 25 bps since 2008 despite a 152 bps drop in the average 10-year T yield over this period. However, state utility regulators could sharply reduce allowed ROEs of regulated utilities going forward which currently average 9.75% average. The allowed ROE together with an equity ratio are the key drivers of regulated utility earnings. CWT's allowed ROE for its water utility for 2022-2024 should be set by late 2021 in a cost of capital proceeding.

Rate case outcomes are hard to predict: While regulated utilities are allowed to recover prudently incurred costs, its up to state utility regulators to determine which costs are in fact recoverable and the return on regulated assets. Some rate case requesting higher revenues may end with a reduction in authorized rates thus revenues and thus earnings. CWT awaits a proposed decision in its 2018 general rate case in CA with rates retroactive to January 1, 2021. Though the utility reached a partial settlement with the consumer advocate late in 2019, outstanding issues involve the continuation of the revenue decoupling and balancing accounts for pension and medical expenses. Without those, CWT could see a meaningful spike in its earnings volatility.

Risks & Considerations for SJW Group SJW Group (SJW)

Allowed ROEs for SJW's regulated water utilities could fall due to lower market interest rates: Equity returns/ROE of regulated electric/gas/water utilities are indirectly linked to the 10-year Treasury yield. The average allowed ROE of a regulated utility in the US dropped just 25 bps since 2008 despite a 152 bps drop in the average 10-year T yield over this period. However, state utility regulators could sharply reduce allowed ROEs of regulated utilities going forward which currently average 9.75% average. The allowed ROE together with an equity ratio are the key drivers of regulated utility earnings. SJW's allowed ROE for its CA water utility for 2022-2024 should be set by late 2021 in a cost of capital proceeding.

Rate case outcomes are hard to predict: While regulated utilities are allowed to recover prudently incurred costs, its up to state utility regulators to determine which costs are in fact recoverable and the return on regulated assets. Some rate case requesting higher revenues may end with a reduction in authorized rates thus revenues and thus earnings. SJW should file a rate case for its new CT business in 2021. Also, the CA utility of SJW should go through a general rate case in the state in 2021 and state regulators could attempt to claw-back some synergies related to the recent merger with CTWS.

SJW's CA earnings are highly volatile: Now that SJW no longer has even a temporary decoupling mechanism in CA, it's CA earnings change along with changes in volumes and changes in purchased water costs. SJW plans to ask for a purchased water cost balancing account in the next rate case in CA, but that means that 2021 could be another weak earnings year before the regulatory fix arrives for 2022, if at all.

Risks & Considerations for Essential Utilities, Inc. Essential Utilities, Inc. (WTRG)

Allowed ROEs for WTRG's regulated utilities could fall due to lower market interest rates: Equity returns/ROE of regulated electric/gas/water utilities are indirectly linked to the 10-year Treasury yield. The average allowed ROE of a regulated utility in the US dropped just 25 bps since 2008 despite a 152 bps drop in the average

10-year T yield over this period. However, state utility regulators could sharply reduce allowed ROEs of regulated utilities going forward which currently average 9.75% average. The allowed ROE together with an equity ratio are the key drivers of regulated utility earnings. WTRG's only pending rate case (in NC) is very small.

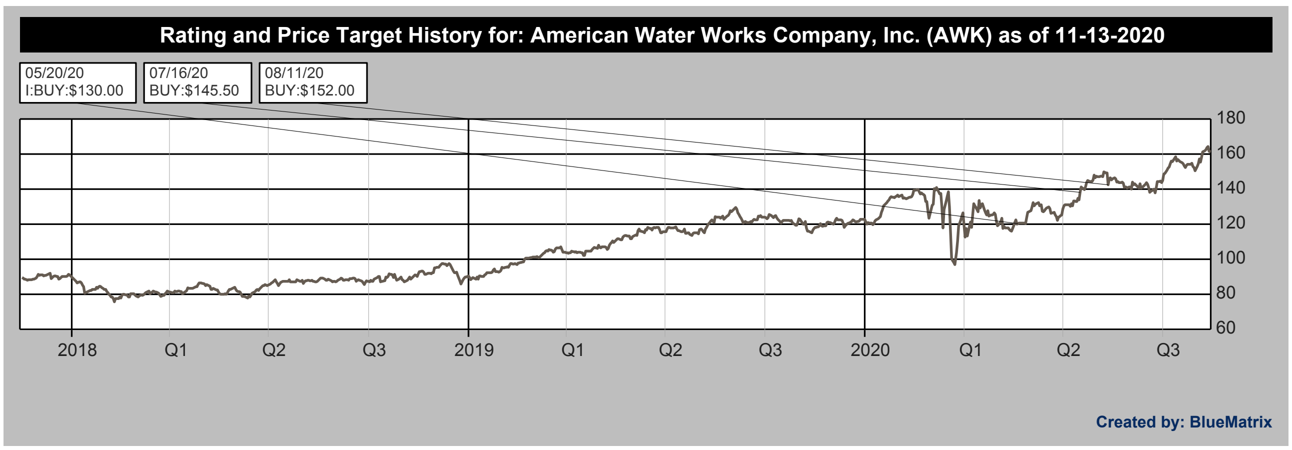
Lower sales volumes could weigh on WTRG's realized ROEs and thus earnings: A utility can see a meaningful deficiency between its realized and allowed ROE depending on the level of sales volumes and operating expenses. While the latter can be controlled, sharp reductions in sales volumes due to energy efficiency (residential and commercial sales) or closure of industrial facilities. The latter is particularly pronounced during the COVID pandemic. The sharply lower C&I sales volumes could weigh on utility earnings beyond 2020. While rate cases could true up sales volume assumptions, utilities could delay rate filings because their ROE could be reduced during those proceedings on the back of sharply lower interest rates.

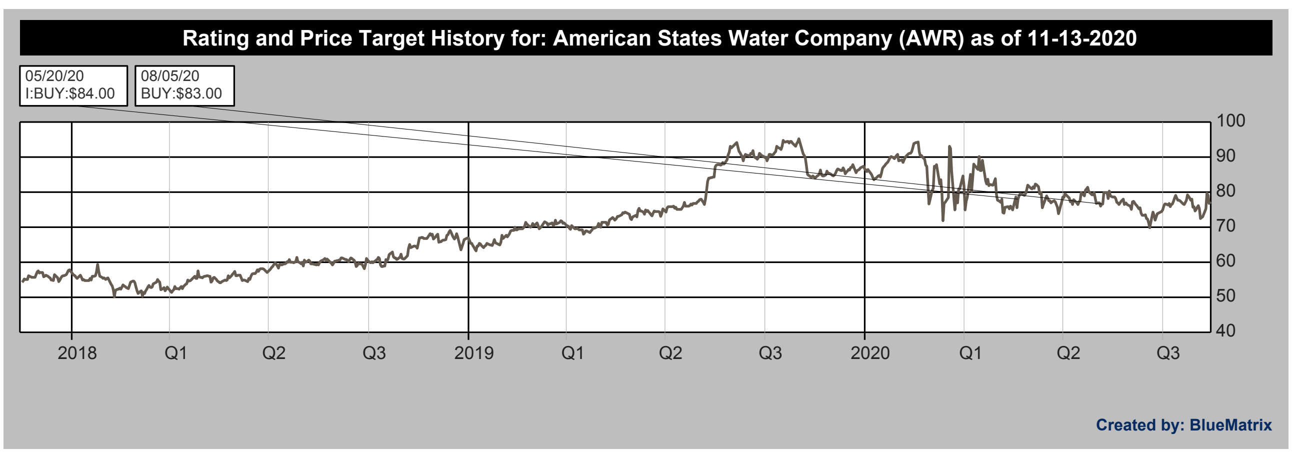
Rate case outcomes are hard to predict: While regulated utilities are allowed to recover prudently incurred costs, it's up to state utility regulators to determine which costs are in fact recoverable and the return on regulated assets. Some rate case requesting higher revenues may end with a reduction in authorized rates thus revenues and thus earnings. WTRG's regulatory calendar is quiet in 2020, with a pending small rate case in NC, and a likely filing for a catch-up repair tax adjustment for Peoples in PA.

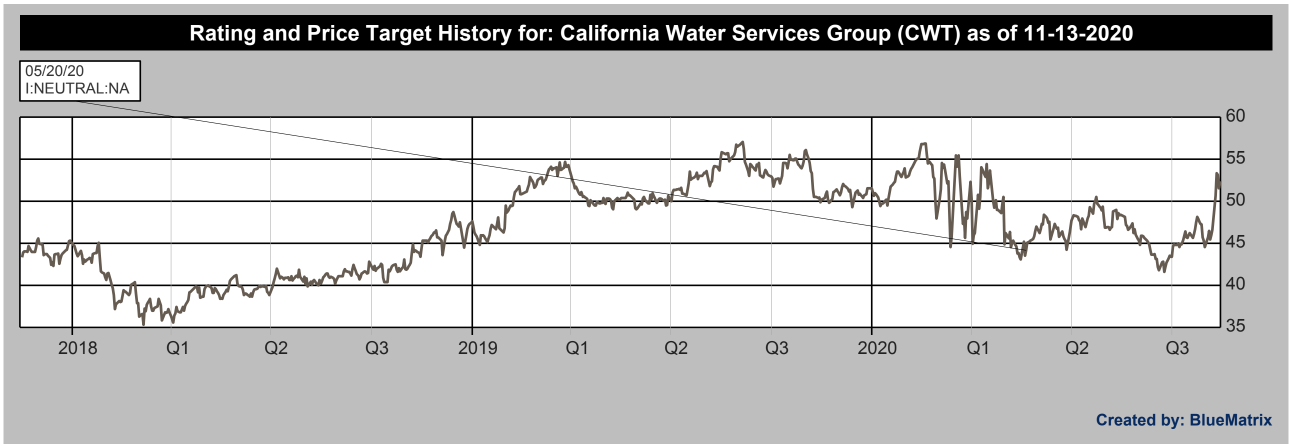
Gas utilities have a higher operating risk than water utilities: Over-pressurized gas systems seem to happen more frequently among gas utilities in the US. While we recognize that Peoples Gas is a well-managed system, WTRG's risk profile could further deteriorate with any gas-related operational issues. Additionally, investors increasingly scrutinize the carbon footprint of gas LDCs which in turn weighs on their market valuations.

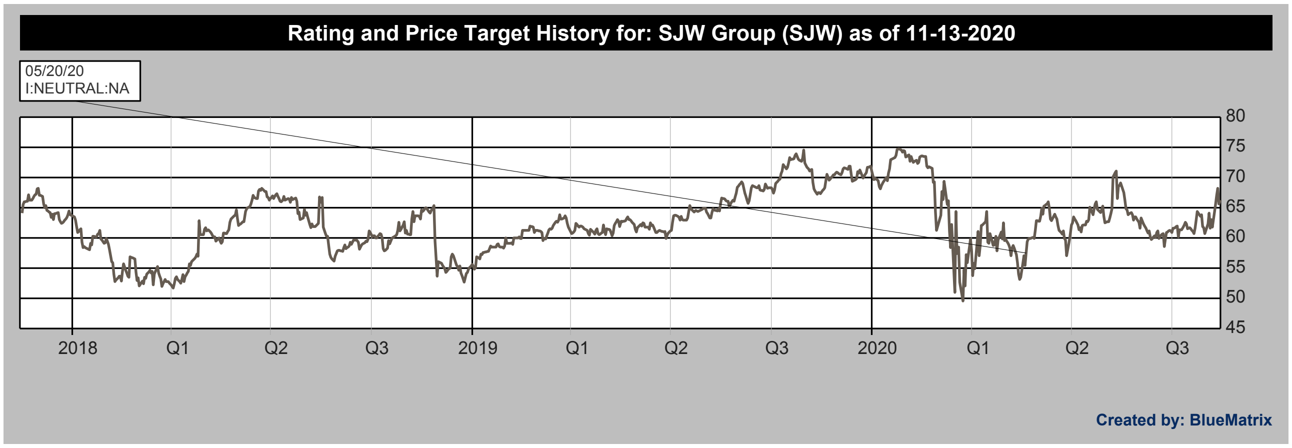
Other Companies Mentioned in This Report

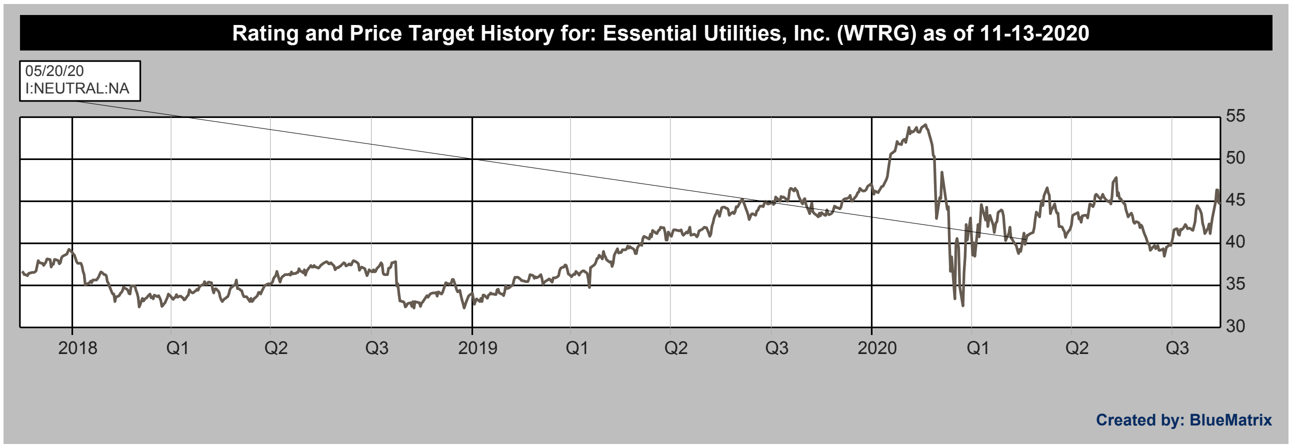
- American Water Works Company, Inc. (AWK: $161.31, Buy)
- California Water Services Group (CWT: $52.38, Neutral)
- Essential Utilities, Inc. (WTRG: $44.71, Neutral)
- American States Water Company (AWR: $77.20, Buy)
- SJW Group (SJW: $66.17, Neutral)











Please contact Seaport Global Securities LLC, for important disclosure information for covered companies. Contact the Director of Equity Research at (949) 274-8052 or write to Seaport Global Securities LLC, 600 Anton Boulevard, Suite 1700, Costa Mesa, CA 92626.
Clients should also refer to https://sgsecurities.bluematrix.com/sellside/Disclosures.action for price charts, as well as specific disclosures for covered companies.

Explanation of Ratings

Seaport Global Securities analyst ratings include (effective Feb. 1, 2017):

Buy - The investment outlook and risk/reward over the following 12 months are favorable on an absolute basis and relative to the peer group.
Neutral - The investment outlook and risk/reward over the following 12 months are neutral on an absolute basis and relative to the peer group.
Sell - The investment outlook and risk/reward over the following 12 months are unfavorable on an absolute basis and relative to the peer group.
NA - A rating is not assigned.

Prior to Feb 1., 2017, Seaport Global Securities analyst ratings included:

Buy - The investment outlook and risk/reward over the following 12 months are very favorable on an absolute basis and relative to the peer group.
Speculative Buy - The investment outlook over the following 12 months is very favorable on an absolute basis and relative to the peer group, however, there is higher than average risk associated with the investment that could result in material loss.
Accumulate - The investment outlook and risk/reward over the following 12 months are favorable on an absolute basis and relative to the peer group.
Neutral - The investment outlook and risk/reward over the following 12 months are neutral on an absolute basis and relative to the peer group.
Reduce - The investment outlook and risk/reward over the following 12 months are unfavorable on an absolute basis and relative to the peer group.
Sell - The investment outlook and risk/reward over the following 12 months are very unfavorable on an absolute basis and relative to the peer group.

NA - A rating is not assigned.

Ratings Distribution

	Research Coverage		Investment Banking Clients*		
Rating	Count	% of Total	Count	% of Total	% of Rating Category
Buy	102	61.1%	1	100.0%	1.0%
Neutral	62	37.1%	0	0.0%	0.0%
Sell	3	1.8%	0	0.0%	0.0%
Total	167	100.0%	1	100.0%	0.6%

*Investment banking clients are companies for whom Seaport Global Securities has provided investment banking services in the previous 12 months.

Note: Ratings Distribution as of September 30, 2020

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